Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at http://about.jstor.org/participate-jstor/individuals/early-journal-content.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

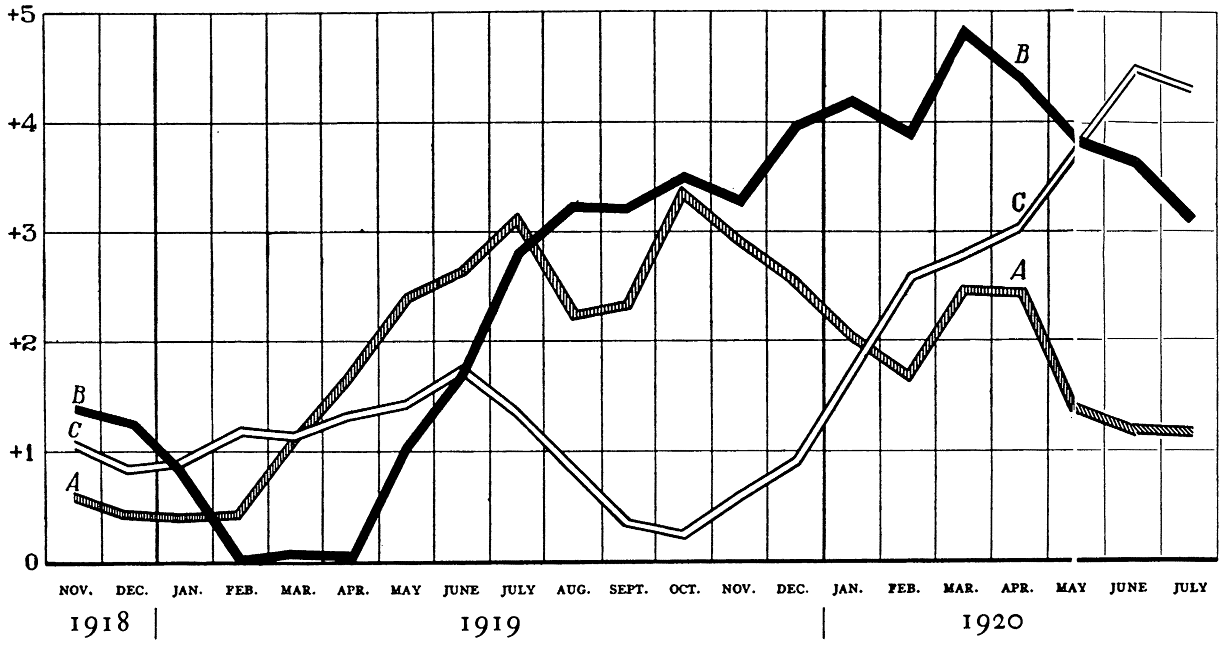
ADVANCE LETTER ON

GENERAL BUSINESS CONDITIONS

August 17, 1920

BUSINESS in July underwent a further decline. Curve B, representing business in the Index Chart, fell for the fourth consecutive month. Both outside clearings and *Bradstreet's* price index were lower in July than in June, but the decline of prices was the more significant movement. Price recessions are now the most fundamental feature of business conditions both in this country and abroad. The prevailing tendency toward partial suspension of business operations rests at bottom upon uncertainty as to the extent to which price reductions are likely to go. Tight money makes it difficult to resist price concessions by withholding goods. Inadequate transportation service, upon the other hand, retards price readjustment by delaying the normal flow of goods. The critical political situation in Europe exercises a disturbing influence which has been particularly noticeable in the price of wheat. Viewing the situation as a whole, present business conditions may be said to focus in the difficulty of present and prospective price readjustment.

INDEX CHART



GROUP A — SPECULATION: New York Bank Clearings, Shares Traded on the New York Stock Exchange, Price of Industrial Stocks.
GROUP B — BUSINESS: Bank Clearings Outside New York City, Bradstreet's Price Indices.
GROUP C — BANKING: Rate on 4–6 Months Commercial Paper, Rate on 60–90 Day Commercial Paper.

EXPLANATION: Each one of the three curves is based upon a homogeneous group of statistical series, that is, the members of each group have synchronous cyclical fluctuations after having been corrected for seasonal variation and normal growth, and expressed in comparable units. In other words, the corrected series of each group fluctuate together.

Our interpretation of the fluctuations of the three curves of the current index chart is based upon the relationship which was discovered among similar curves for the period 1903–14. All three curves had wave movements, but the upward swings and the crests of the waves were not reached simultaneously. The major movements of speculation preceded those of business by 4 to 10 months, and the movements of business preceded those of banking by 2 to 8 months. The sequence of movements holding for upward swings and crests also held for downward swings and troughs.

The relationship between the curves which held for the pre-war period appears to have reëstablished itself in 1919 so that the movements of the curves constitute a basis for forecasting. Our forecasts, however, are not based solely upon the index of general business conditions, but they allow for the differences in underlying conditions as revealed by economic analysis. During recent months, the persistent rise of rates on commercial paper, curve C, and the decline of speculation from the high point of October, curve A, have forecasted the decline of business activity and commodity prices, curve B.

The duration, rate, and extent of the recession in business activity and commodity prices depend upon the operation of two powerful opposing forces. On the one hand, the shortage of commodities and buildings, abnormal foreign demand for goods and credit, the railroad tie-up, and active retail trade in the United States make for immediate business activity or higher prices. On the other hand, inflated currency and credit, depleted reserves and increasing interest rates, all indicative of capital strain, make for a slackening of business activity and lower prices. At present the money market appears to be the crux of the situation, but we recognize the possibility of the entrance of other factors which may alter the course of developments.

Unless the renewal of large-scale military operations by the European allies arrests the process, further and more general reductions of prices appear to be in order. Recent weeks have witnessed the spread of the downward movement into new lines. The expectation, expressed in some quarters, that the substantial increase in railroad rates, soon to go into effect, will quickly reappear in higher costs and prices, does not seem to be well grounded. In some trades, the new rates may have an appreciable effect; in most, they will be so diffused among more important elements of cost, and in time so offset, it is to be hoped, by greater efficiency in the country's transportation service, that they will scarcely affect the general decline in prices which is being forced by other influences. Greater efficiency of labor, reported in a number of industries, will make acceptance of price concessions easier by somewhat reducing costs of production. The fact that the greatest price reductions thus far registered involve important raw materials should facilitate adjustment in the prices of

COPYRIGHT, 1920, BY HARVARD UNIVERSITY

expansion. The reserve ratio continues to be about 43 per cent and excess reserves upwards of two hundred million dollars. Although net deposits are now running considerably below the figures registered earlier in the year, federal reserve notes in actual circulation reached a new high point of 3,181 millions on July 9.

Physical Production in 1919

There has been wide divergence of opinion concerning the physical volume of production of commodities in 1919 and in the first part of 1920 compared with other years. This is a natural result of the meagreness of production statistics expressed in units of quantity instead of value. The quantities produced of very few manufactured articles, for instance, are available. Nevertheless, it has been thought worth while to bring together in summary figures such statistics of production of important commodities as can be obtained. Estimates were made, first, of physical production in the United States in 1919 relative to 1918 and, second, of physical production in each of the years 1914 to 1919 relative to that in 1913.

From the reports of 30 staple products, chiefly agricultural and mineral, it appears that the aggregate output of goods in the United States in 1919 fell below that of 1918. This decline in the aggregate occurred notwithstanding an increase in the volume of farm products, and was due to a heavy falling off in the output of minerals. Index numbers for all the commodities and for two large groups follow:

Index Numbers of Physical Production

(Base: 1918 = 100)

Class		1919
All commodities	(30)	96.2
Farm and forest products	(14)	104.5
Mineral and manufactured products	(16)	81.7

The volume of goods moved to market in 1919 probably was a smaller proportion of the 1918 movement than the index number of physical volume would indicate. Farm products were not shipped toward the East as rapidly in 1919 as in normal years. Net ton miles of railway freight moved in 1919 were only 90 per cent of those of 1918.

The articles selected for the index are those for which 1919 production data were available, and which appeared significant and representative. Goods such as barley, peaches, chromium, freight cars built, were excluded, though the reports of output were at hand. In Table A is the list of commodities used, together with a statement of their actual production in 1918 and 1919, and their 1918 price.

The output of each commodity in the two years was multiplied by its price in 1918. Values thus secured in each year were summed for all the commodities and for the two groups designated as "farm and forest products" and "mineral and manufactured products." From these three sets of aggregates, relatives were computed to the base 1918.

Application of the method just described to annual data covering the period 1913–19 has given the results presented in Table B. From the index numbers we conclude that the output of mines in 1919 was considerably below that in each of the three years preceding. The index of production of all commodities in 1919 is slightly above that of 1916 and slightly below that of 1915.

Table B. — Indices of Physical Production, 1913–19 *

(Base = 1913)

	Farm and Forest		Mineral and Manufacturing		Total	
	Aggregate	Relative	Aggregate	Relative	Aggregate	Relative
1913	12,496	100	5,962	100	18,458	100
1914	13,729	110	5,055	85	18,784	102
1915	14,350	115	5,914	99	20,278	110
1916	12,718	102	7,232	121	19,965	108
1917	13,649	109	7,549	127	21,216	115
1918	13,290	106	7,571	127	20,882	113
1919	13,872	111	6,186	104	20,074	109

* Values are computed for each year and each commodity by using the prices of 1918. Aggregates are then found for each year and expressed in units of $1,000,000. Cadmium, manganese ore and rolled zinc are not included in this index.

This brief survey indicates the conclusion that, except for crops, physical production in 1919 was not large; in fact total production was smaller than that of the war years, 1917 and 1918, when production was successfully stimulated; and it was about the same as that of the years 1915 and 1916.

HARVARD UNIVERSITY COMMITTEE ON ECONOMIC RESEARCH
CHARLES J. BULLOCK, Chairman WARREN M. PERSONS, Editor
WADSWORTH HOUSE, CAMBRIDGE 38, MASS.